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Kenneth Rust
Director
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October 22, 1996

EX PARTE

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Room 222
!919 M. Street, N.W.
Washington, DC 20554

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Federal Communications Commission
Office of Secretary

Re: CC Docket 96-45 Universal Service

Dear Mr. Caton:

The attached was filed with the Federal Communications Commission on October 21.

Today, we mailed the attached documents to the State Commissioners and the Consumer Advocate who are serving on the Federal State Joint Board in this proceeding. This included: Commissioner Ken McClure, Ms. Martha Hogerty, Commissioner Laska Schoenfelder and Commissioner Julia Johnson.

Any questions on this matter should be directed to me at either the address or the telephone number shown above.

Sincerely,

Ken Rust
Sct

Ken Rust

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Frank J. Gumper
Vice President Federal Regulatory Planning

October 21, 1996

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EX PARTE

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

Re: CC Docket 96-45

Dear Mr. Caton:

On October 18, in separate meetings, Ms. S. Guyer, Ms. S. Chaney, and I, representing NYNEX met with Commissioner Sharon Nelson of the Federal State Joint Board and Mr. John Moribito, Deputy Chief, and Ms. L. Boehley, Accounting and Audits Division of the FCC's Common Carrier Bureau, to review revisions to NYNEX's position in Docket 96-45, Universal Service. Attached are charts provided to them during the meetings.

NYNEX's revised position reflects the effects of the Commission's decision in Docket 96-98 and the recent stay by the court of the pricing rules contained in the Commission's order.

Given the Commission's decision in Docket 96-98 that an incumbent LEC must recombine unbundled network elements at the request of a competitor, NYNEX is of the opinion that this action creates a direct linkage between the determination of the costs used for Universal Service funding and the pricing of the unbundled network elements. Specifically, as shown on chart 11, the cost of Universal Service should be set equal to the prices of the unbundled network elements that equate to the definition of Universal Service plus a State Commission approved cost to cover the retail costs of serving the customer account. While State Commission's will determine the level of geographical deaveraging for unbundled network elements, ideally it should be the same as that used for universal service funding. NYNEX suggests that the Joint Board recommend from 2-4 geographic zones within a state be used for Universal Service Funding purposes (chart 12). The minimum of 2 zones would provide for an urban/rural deaveraging of costs.

A national fund would be established to cover rural, insular, and high cost areas where the cost of Universal Service, as established above, exceeded a national benchmark rate. NYNEX proposes that this benchmark rate be determined through an analysis of the current charges for the services defined as constituting Universal Service, i.e., residence exchange, local usage, touch tone, etc. The National Benchmark Rate would be established so that between 80-90% of existing rates fell below the Benchmark Rate (chart 13).

Funds collected by a carrier from the new Universal Service Fund would not result in additional revenues for the carrier since there would be a dollar for dollar revenue offset via rate decreases when the new Universal Service Fund was initially established (chart 16).

Since the Commission has referred to the Joint Board the issue of the end user subscriber line charge and the carrier common line charge, NYNEX proposes the following for recommendation by the Joint Board. Below the National Benchmark, the interstate allocated costs would be recovered through flat rated charges applied to end users and carriers. NYNEX proposes that 40% of the costs be recovered from the end user and 60% be recovered from Interexchange carriers on the basis of presubscribed lines. To avoid incenting carriers to have customers "unpresubscribing" their lines using 10XXX dialers, if an end user did not presubscribe to an interexchange carrier then the end user would pay both line charges (chart 17). The 40% was chosen since loop costs are approximately 80% of total universal service costs and the current end user charge cap of $3.50 was initially felt to represent 50% of average interstate assigned loop costs. A figure of 40% would restore the position that the end user pays half of the interstate assigned loop costs and the interexchange carrier pays the rest of universal service costs assigned to the interstate jurisdiction and not recovered via a Universal Service Fund. Examples of the application of this process to both an urban and a rural area are provided in charts 18 and 19. Upon implementation, the process would be revenue neutral with the carrier line charge revenues being offset with decreases to the end user charge and switched access charge rate elements including the carrier common line charge, the local switching charge and the transport interconnection charge. The collection of these primarily non traffic sensitive costs through line charges is economically sounder than the current practice of having interexchange carrier usage sensitive rates.

Lastly, NYNEX pointed out (charts 20-25) that to be both competitively neutral and explicit the allocation among carriers and the collection by those carriers of the monies they put into a Universal Service Fund requires an explicit surcharge on end users' bills. This surcharge should be determined by the Universal Service Fund Administrator being revised periodically to match Universal Service Fund distributions and collections, as a percentage of total retail revenues less retail revenues associated with residence exchange services and the residence end user line charge. Other forms of allocation and collection of Universal Service Fund monies are either not competitively neutral or significantly more administratively complex.

Sincerely,

Frank Gumper (SG)

cc: Commissioner S. Nelson
J. Moribito
A. Gomez
L. Boehley
P. Pederson

NYNEX Proposal for Universal Service

Post 96-98 Interconnection Order

October 18, 1996

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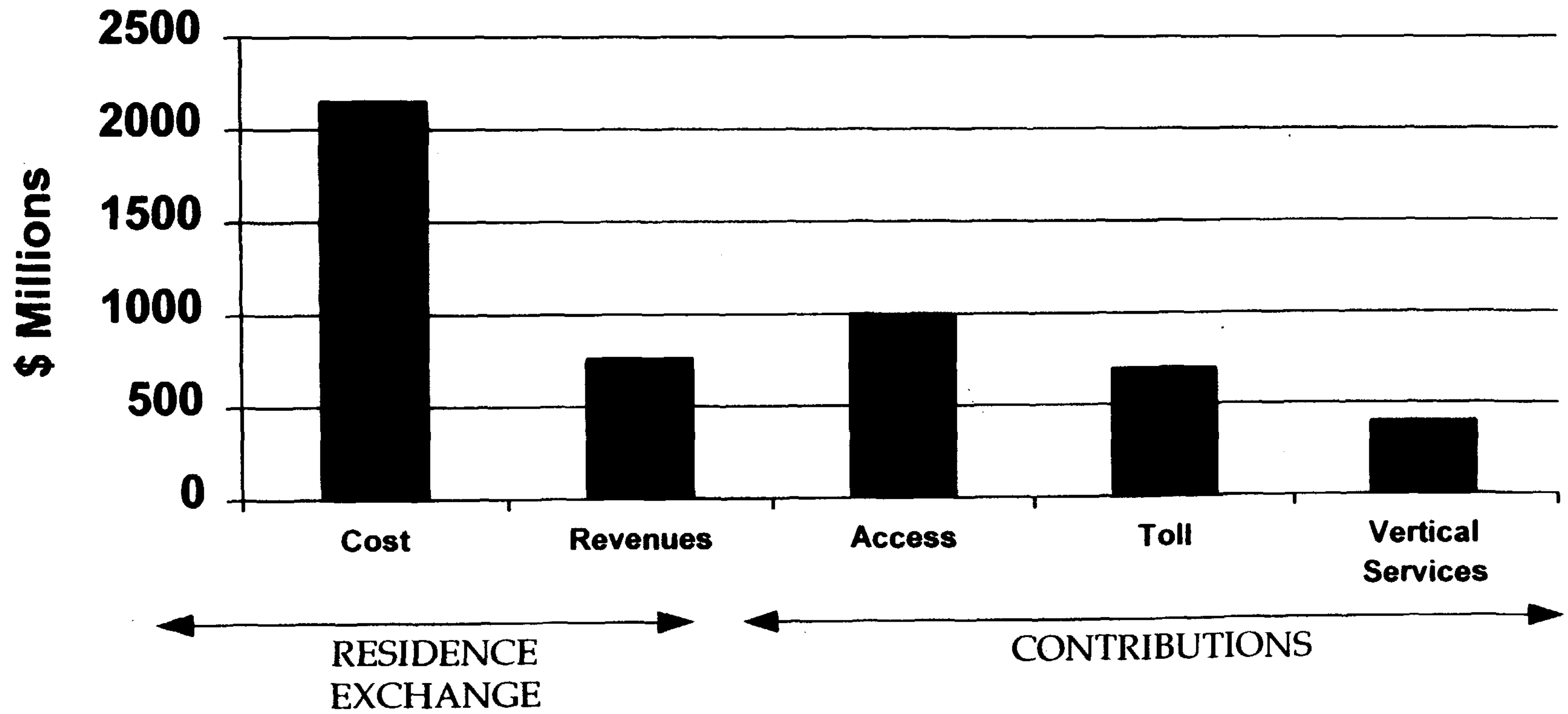
What is the Problem?

- Current system of massive cross subsidies is incompatible with the Act and FCC Interconnection Order
- Historical use of separations process to support local rates needs to be addressed.
- FCC Interconnection Order requires rapid action.

Existing Universal Service Support System

NYNEX New York Revenue/Cost Study



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What Do We Mean by Actual Costs?

Actual costs include:

- NYNEX's current expenses of running its network and providing service
- Depreciation
- Taxes
- Interest on debt
- Cost of equity capital

Existing Intrastate Contributions to Residence Exchange Service

Costs →

Vertical Services Contribution
Toll Contribution
Access Contribution

Rates →

FCC policy adopting TELRIC potentially erodes these contributions.

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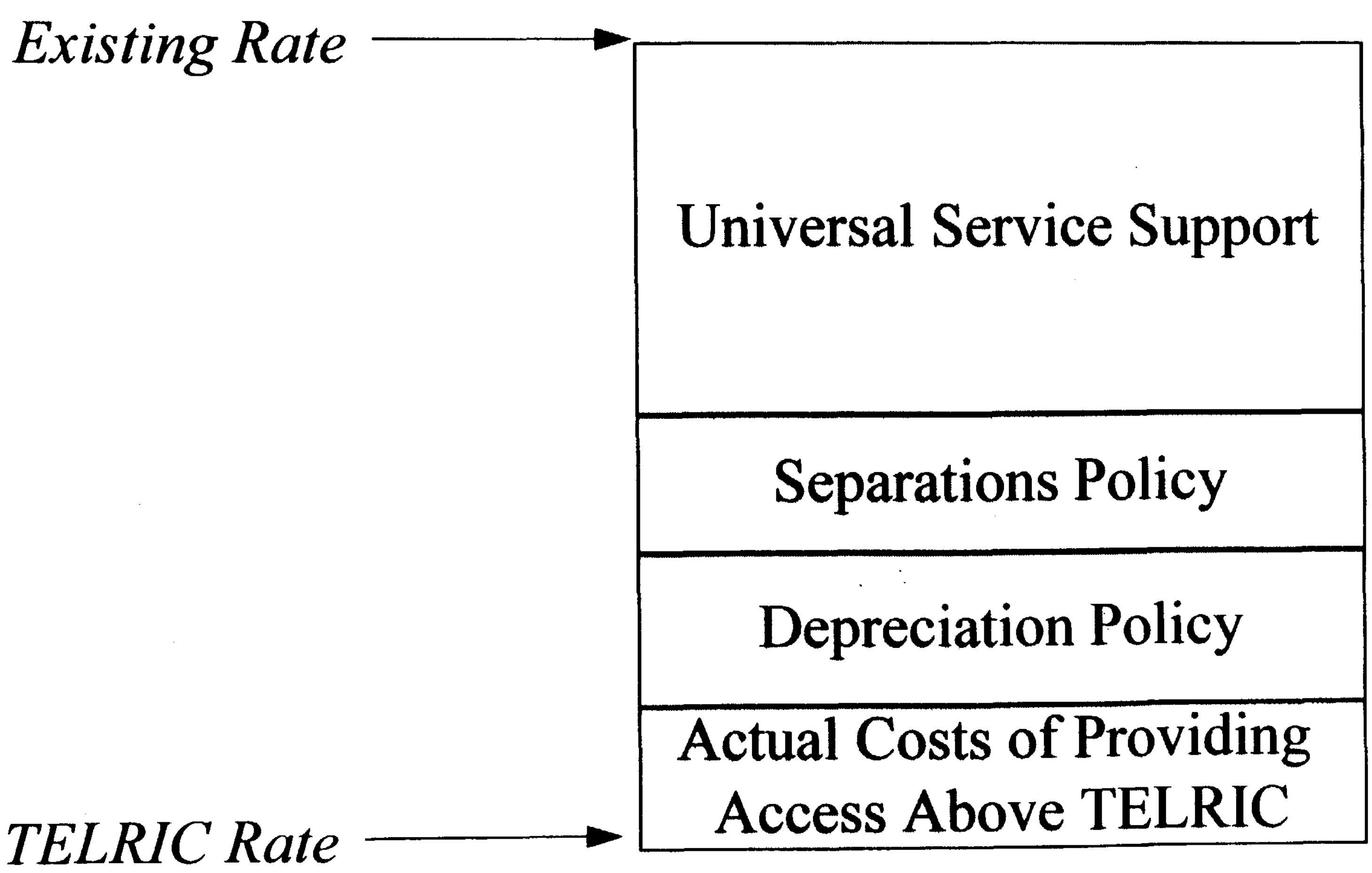
Relationship Between Existing Interstate Access Rates and TELRIC Rates



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Percent Costs Allocated to Interstate Jurisdiction

STATES:

New York: 27.1%
Massachusetts: 27.3%
New Hampshire: 31.4%
Vermont: 30.1%
Maine: 27.5%
Rhode Island: 27.8%

NYNEX: 27.4%

RBOCS:

Ameritech: 24.0%
Bell Atlantic: 27.8%
Bell South: 24.7%
PacBell: 22.1%
SBC: 25.7%
USWest: 27.5%

NATIONAL AVERAGE: 25.7%

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One Solution: Fix Separations and Push Costs Back to Intrastate Jurisdiction

- Lengthy process
- Contentious - compounds State problem
- Doesn't address mandate of the Act to make subsidies explicit
- Don't have time: Universal Service deadline 5/8/97; Interconnection deadline is 7/1/97

Universal Service Should Cover

- Residence exchange
- Local usage (100-150 calls)
- Touch-Tone service
- Access to E911
- Access to Operator Services
- Access to Directory Assistance
- Access to Long Distance

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Joint Board/ FCC Establish Cost of Universal Service

State Approved Study

or

Nationwide Proxy Model until State Commission Approves Study

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Necessary Linkage between Universal Service and Network Elements

Universal Service = Network Elements plus Retail Costs

a) Network Elements =	Loop Port Local Switching (500-700 MOUs) Transport and Terminating Access Access to E911, Operator Services and Directory Assistance
b) Retail Costs =	State Approved $ per line to Cover Customer Care Costs for Basic Service

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There is Important Linkage Between Unbundled Network Elements and USF Support:

- Geographical deaveraging should be the same.
- For Universal Service Costing, Joint Board should specify reasonable number of zones in state (2-4)
  - Urban
  - Suburban
  - Rural
- Wire Center, Census Block Group -- administrative nightmare

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Joint Board/FCC Establishes National Benchmark Rate

- Use existing rates
- Pick national benchmark to include 80-90% of existing rates

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The Options:

- Jurisdictional funds (Federal and State)
- National fund covers total intrastate and interstate

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If Joint Board/FCC pursues total national fund, then USF revenues should be split based upon percentage of interstate access to the combination of inter- and intrastate access, intrastate toll and vertical services.

PERCENT SPLIT OF USF

	Intrastate	Interstate
NYNEX	54%	46%
New York	54%	46%
Massachusetts	55%	45%
Vermont	53%	47%
New Hampshire	50%	50%
Maine	70%	30%
Rhode Island	40%	60%

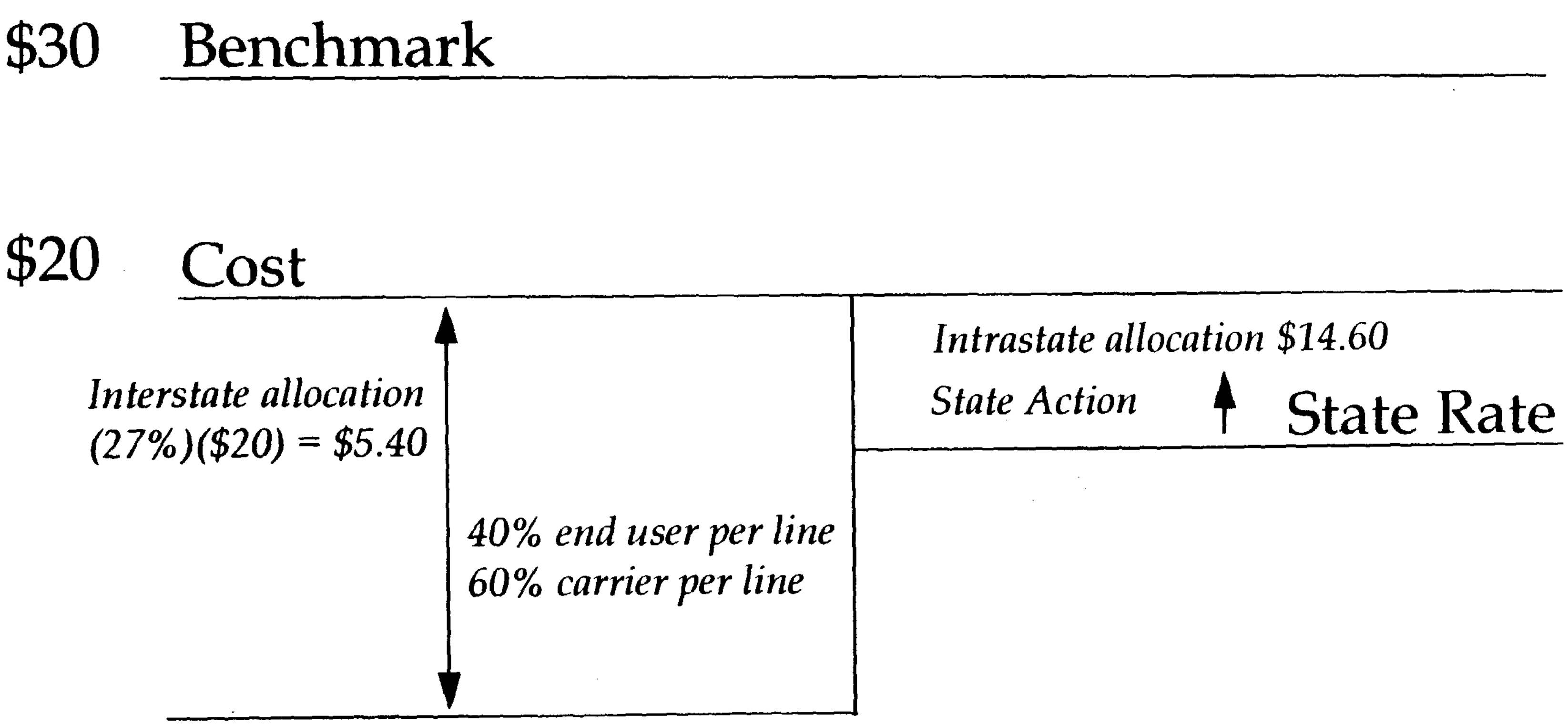
National Fund

- Difference between high cost and benchmark
- Funds used by carrier to offset existing high rates
  - Residence local rates above benchmark
  - Interstate access; intrastate access; intrastate toll; vertical services

Interstate Allocation of Costs Below Benchmark

- Collect via flat rate charges
- 40% paid by end user via interstate line charge
- 60% paid by IXC on a per presubscribed line charge
- If end user "NO PICs" line, then IXC charge paid by end user

Urban Example



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Rural Example

$50 Costs

National Fund - $20 per line portable

$30 Benchmark

Interstate allocation
(27%)($30) = $8.40

40% end user per line
60% carrier per line

State Action

State Rate

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Allocating and Collecting USF

To be competitively neutral, allocation and collection of USF must be linked.

A plan that places an unequal burden on retail customers of different companies

IS NOT

a competitively neutral mechanism.

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Likewise: Hiding Universal Service Funding in Customers Rates is Implicit, Not Explicit Funding

Solution:

Need a uniform surcharge on retail revenues less residence basic service and interstate per line charge.

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Example: USF = $500 Million
(Two Companies)

($ Millions)	*Carrier A*	*Carrier B*
Retail Revenue	2,000	2,000
Carrier Revenue	1,000	-
Gross Revenue	3,000	2,000

Case 1: Use Retail Revenues. Total = $4,000 million

Carrier A pays $250 million and Carrier B pays $250 million

Surcharge Retail:

Carrier A = 12.5% and Carrier B = 12.5%

Explicit and Competitively Neutral

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